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THE TORONTO STREET RAILWAY.

What, so far as this continent is concerned, is a novel experiment, has been this year tried in Toronto, Canada. The city authorities assumed for a time the *management* of the street railway. The steps which led to the experiment and the details of the case are interesting from an economic point of view, as indicating a secondary stage in the development of this peculiar industry.

In 1861 the legislature of Ontario passed an act incorporating the Toronto Street Railway Company, which at once began operations. It was thus one of the earliest charters granted to street railways in America. The charter, while not giving an absolute monopoly, provided that "if any other party proposed to construct railways on unoccupied streets, the chartered company should first have the option of constructing such railway on the conditions proposed, but, if such preference were not accepted within one month, the corporation might grant the privilege to other parties." This, however (with one unimportant exception), resulted in the chartered company always building such lines. The only returns to the city for the franchise were (*a*) an annual fee of \$5 on each car; (*b*) the maintenance of the road-bed between the rails and eighteen inches beyond on either side; (*c*) ordinary taxes.

The privilege was for thirty years, at the end of which time the city might "assume the ownership of the railways and all real and personal property in connection with the working thereof, at a value to be determined by arbitration"; and, on this right not being exercised when that period expired, it might be exercised at the end of any subsequent five years. These clauses have been the basis of a lawsuit by the company to compel the city to include in the arbitrators' award the value of the different properties, such as stables, yards, etc., not at their ordinary prices, but at their value for street railway purposes; that is, on the assumption that the franchise was perpetual. This suit is not yet settled.

Whether or not the Toronto of 1861 with its population of forty-two thousand was too small for successful street railway traffic, the company failed in 1869. Its franchise was then transferred to another company, which maintained control until the present year, when the city exercised its option of terminating the charter. The vagueness of the terms of the charter of 1861, and its silence upon many important points regarding the relations of the company to the city authorities,—points which could not be anticipated at that early date in street railway enterprise, but which became important on the rapid growth of the city after 1870, and the corresponding development on the part of the railway,—gave rise to serious differences and acute friction between the city and the company. Thus the maintenance of the company's part of the road-bed was a prolific source of complaint. At the instance of the city, acts were passed by the Ontario legislature, in 1876 and 1877, providing that the company should use the same kind of paving as that used by the city in the other part of the street, and that, if they failed to do so, the city engineer might do the paving, charging it to the company. This did not work well. Accidents occurred from the defective paving, and the city attempted to saddle the resulting damages upon the company. The company retorted that the adjoining road-bed was inappropriate for car-track paving, and that in any event the responsibility of repairing such track, when defective, lay with the city engineer, who, after making the repairs, should then collect from the company their cost; and the company finally claimed \$10,000 damages from the city for permitting defective paving to continue unrepaired. The city in turn instituted a suit against the company in 1886. After prolonged legal proceedings, lasting some two years and a half, during which the case was decided in various ways by successive courts of appeal, the matter was finally settled in 1889 by an agreement that the city should maintain all the roadway, and the company should pay an annual rental of \$600 per mile of single track.

Another question of dispute was whether the company was obliged to provide, in addition to the driver, a conductor on every car. This also gave rise to a suit, which was carried up

through the courts with varying results. The company's conduct in piling the winter's snow and ice upon the adjoining roadway, its refusal to grant transfer tickets and to heat cars in winter, its treatment of its men, culminating in strikes with resulting discomfort to the public, were among the causes that continually directed attention from 1884 to 1888 to street railway matters, and proved the unyielding nature of the company. The citizens were goaded first into interest, then anger, and finally a determination to put an end to the franchise in 1891, when, as has been pointed out, the first opportunity of doing so presented itself. This conclusion might have been arrived at in any event; but public opinion could not have been so effectually aroused, and the wonderful unanimity displayed could not otherwise have been attained.

Accordingly, the Provincial Legislature of Ontario, at the request of the city authorities, enacted in 1889 that "the corporation of the city of Toronto may, with the consent of the rate-payers, borrow whatever sum may be required to enable the said corporation to acquire the ownership of the railways of the Toronto Street Railway Company at the expiration of the current term of the said company's franchise, and may issue debentures therefor, and may manage and operate the said railways, or (having acquired the said property) may sell, lease, or otherwise dispose of the same." In June, 1890, three arbitrators were appointed,—one by the city, one by the company, these two selecting a third. They were to determine the value of the property according to the conditions of the charter of 1861 and subsequent agreements. After a minute examination of claims, as argued by the best counsel of the Province, and extending over more than half a year, two of the three arbitrators (the company's appointee not concurring) agreed on a report, giving as the value of the company's assets \$1,453,788. This sum differed materially from the company's estimate of \$5,000,000 and the city's estimate of \$500,000, being very nearly a geometric mean, three times the one, one-third the other. In making their award, a majority of the arbitrators decided against the company's claim of a perpetual franchise,—a claim founded upon the clause of the charter of 1861, quoted near the beginning of this paper.

The finding of the arbitrators was handed in on April 15, 1891. The thirty years of the old agreement had expired on the previous 15th of March. That date found the city fathers quite unready to assume control; so that the old company was allowed, on the same conditions as before, to continue till May 15. But, when the city had fully determined, nearly two years before, to end the company's charter in 1891, why was it not ready when the time came? Partly because the arbitration dragged on to an unexpected length, and its results were necessary before tenders from new companies could be advertised for; partly because the city authorities, expecting to hand the road directly to a new company, did not perfect arrangements for civic control until too late. This was not the fault of the advocates of municipal management, who, not being remarkable for reticence in expressing their opinions, and being supported by some workmen's clubs and the single tax association, seemed for a time to have an importance that the sequel showed they did not possess.

On the advent of warm weather, bringing with it the lucrative season of street railway traffic, the popular demand for the displacing of the old company became too strong to be withheld. Accordingly, on May 20, a committee of the city aldermen, after a certain amount of legal skirmishing with the defunct company, took possession of the street railway property. The former employees were retained, and the former manager was made head of the new civic department, under a Street Railway Committee of the City Council. As the old conditions were retained in every respect, it was not long before discontent arose. Employees expected shorter hours now that the city was managing the road; citizens looked for a better service, a system of transfers, and many minor improvements. Accidents happened, and suits for damages were brought against the city. Some observers thought that repairs were not kept up as well as formerly, and the Toronto press darkly hinted at aldermanic favoritism and jobbery. Some went so far as to say that, if the city did not soon dispose of the franchise, it would have a worthless franchise to dispose of. Yet, in truth, the returns were as great as in former years, and accidents no more frequent, the head of the

new department, the former manager of the old company, testifying to the similarity in repairing and managing the road. Nevertheless, the public became distrustful; and it is tolerably certain that few rate-payers regretted it when on September 1 the street railway and its responsibilities were handed over to a new company for a term of years.

The negotiations by which this transfer was brought about are interesting to the student of civic politics. In advertising for tenders, the city council attached several "conditions of sale," which are important from an economic point of view as indicating the position assumed by the municipality after mature deliberation. These conditions were:—

1. The franchise offered was (subject to the italicised portion of the next section) to be a *monopoly* of surface street railway traffic for a period of twenty years, renewable on the same terms for a further period of ten years if the legislation necessary could be obtained. The "perpetual franchise" difficulty of the old charter was expressly guarded against. The tenderers were to pay the city for the property the same sum that the city paid the old company.

2. The city was to maintain the whole roadway, but not the rails and substructure required for the railway; the tenderers to pay the city annually \$800 per mile of single track, to obtain the city engineer's consent to any change or extension of track, *to extend any line, when asked to do so by the city, on pain of having the city grant the construction and operation of such extension to another company,* and gradually to introduce an electric or other new system of motor.

3. Removal of ice and snow from the track, a system of transfers, the providing of conductors on all cars, the heating of cars, and so on, were provided for; so that the painful experience of former years has borne fruit.

4. Last, and perhaps most interesting, were the provisions for treatment of employees and for cheap tickets: "No employee shall be compelled to work in the service of the railway for a longer period than ten hours per day, or than sixty hours per week, or on more than six days per week; and no adult employee in the service of the railway shall be paid less than fifteen cents per hour." No Sunday street-cars should

be run until a popular vote called for them. As to tickets and fares, it was required that there should be: (1) ordinary tickets, five cents each, six for twenty-five cents, or twenty-five for \$1; (2) workmen's tickets, good from 5.30 A.M. to 8 A.M. and from 5 P.M. to 6.30 P.M., eight for twenty-five cents; (3) school-children's tickets, good from 8 A.M. to 5 P.M., except Saturdays, ten for twenty-five cents.

These points were all matters for keen discussion, and were finally adopted by good majorities. Thus the provision for workmen's tickets was embodied in the committee's report, was referred back to the committee by the council, was the subject of much comment by the city press, was returned by the committee to the council, and, after the defeat of amendments to strike it out or to substitute seven or nine in place of eight tickets, was finally adopted by a vote of twenty-two to twelve.

After arranging the foregoing specifications, the city advertised for tenders in accordance with them. They were to take the shape of so much per cent. of the gross receipts from all sources of revenue of the street railway system, or the tenderers might submit offers on their own terms. Not receiving suitable offers at first, the committee advertised again, and on May 27 opened the three tenders received. Two of the tenders were based on the *city providing the money to change the present "horse" to an "electric" system*; and, as the city discovered that the legislation of 1889 had not given it this money-borrowing power, but only power to buy the old railway system as it stood, the committee called on the tenderers to amend their offers. This they did; and the three tenders, known respectively as the Kiely, the Kerr, and the Miller tenders, were on the 30th of June submitted to experts. Public interest was now thoroughly aroused. The newspapers of Toronto arrayed themselves on one side or another. Every citizen had his opinion. It was soon seen that the Miller offer was not so good as the others; and, accordingly, the strife between the Kiely and the Kerr supporters became all the keener. About this time the charges and counter-charges of "undue influence" and "corruption," to which reference will presently be made, began to assume definite

shape. On July 13 the experts brought in their report on the tenders, to which we shall now turn.

The tenders, while intricate in some of the alternatives presented for consideration by the city, had many features in common. Accepting *in toto* the conditions laid down by the city and quoted above, all the tenderers offered a percentage of the gross annual receipts, that percentage increasing as the receipts increased. The details can be best presented in tabular form, thus :—

	<i>Miller.</i>	<i>Kerr.</i>	<i>Kiely.</i>	
Up to \$1,000,000,	7	$7\frac{1}{8}$	8 per cent.	
From \$1,000,000 to \$1,500,000,	$8\frac{1}{2}$	$8\frac{1}{8}$	10 " "	on the additional \$500,000
" 1,500,000 " 2,000,000,	$10\frac{1}{2}$	$9\frac{1}{8}$	12 " "	" 500,000
" 2,000,000 " 3,000,000,	15	$10\frac{3}{4}$	15 " "	" 1,000,000
" 3,000,000 " 5,000,000,	23	$13\frac{3}{8}$	20 " "	" 2,000,000

The Kerr tender offered at the same time to increase the above tender by five-sixths of one per cent. for each two and a half per cent. that operating expenses fell below sixty per cent. of gross receipts, until fifty per cent. should be reached. (The gross receipts of the street railway in 1890 were about \$730,000, and the operating expenses were probably about seventy per cent. of the whole.) The experts estimated that the capitalized value at the end of thirty years of the amount receivable by the city under the foregoing tenders was: Kiely, \$9,530,000; Kerr, \$8,850,000; Miller, \$8,728,000.

Each of the tenderers put in numerous and widely differing alternative provisions. Thus Kiely offered, if the workmen's tickets clause were struck from the specifications, to pay the city two per cent. additional on the amount of the gross receipts; while Kerr offered, if both workmen's and school children's cheap fares were abandoned, to increase his bid by two and five-eighths per cent. of the gross receipts. Each tenderer also presented offers in case the city would guarantee some or all of the street railway bonds.

The experts brought in their report on July 9, and on July 13 the street railway committee recommended to the mayor and aldermen the adoption of the Kiely tender as the best straight offer. The contest then became warmer than ever. Charges of "crookedness" were openly made. A section of the council maintained that none of the offers were good

enough, that the street railway was progressing very well in the hands of the city officials, and that new tenders should be called for. Nevertheless, on July 21 the council by a vote of 24 to 14 decided in favor of Kiely, and on August 26 by an increased majority determined on the consummation of the contract. An injunction that had been applied for to prevent the city authorities handing over the railway till the charges of corruption had been examined into came to naught. Accordingly, on September 1 the new charter embodying the above provisions was signed, the bonds were transferred, and the road was handed over with all due formalities to the Kiely syndicate.

ARTHUR H. SINCLAIR.

TORONTO, September, 1891.

THE RESIDUAL THEORY OF DISTRIBUTION.

Having long known and admired President Walker's economical writings, I could not possibly suppose him to be hostile to trades-unions. Nevertheless, the general theory of distribution expounded by President Walker in the *Political Economy* and in the pages of this *Journal* seems to me capable, without any wresting, of an interpretation which might be used to "deter workmen from taking action for themselves."

In April, 1888, President Walker wrote in this *Journal*,* —

If, then, it can be shown that, in the distribution of the new product, three of the shares are naturally limited, so that not one of them need increase or, under perfect competition, will increase merely because the product has increased, we are entitled to call the remaining share, which receives the whole gain, residual.

The force of the contrast certainly seems to imply that the remaining share (or wages) need and will increase simply because the product has increased. And in the *Wages Question*,† "Wages are paid out of the product of *present* industry."

* Vol. ii. p. 284.

† Chap. viii. p. 128.